



HOUSE BUDGET COMMITTEE

Democratic Caucus

The Honorable John M. Spratt Jr. ■ Ranking Democratic Member

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Republican Debt Threatens Social Security and Medicare

Dear Democratic Colleague:

Social Security and Medicare, unquestionably among the most successful government undertakings, will come under heavy financial pressure with the retirement of the baby-boom generation. The majority of the first baby boomers, those born in 1946, will begin to collect reduced Social Security benefits when they turn 62, in 2008 — just five years from now. Then, those same baby boomers will begin to receive Medicare benefits at age 65 — in 2011. The federal budget has next to no time to prepare for this coming demographic tidal wave, which will double the number of retirees in just 50 years, while the number of taxpaying workers grows by less than one-third.

Every plan to refinance Social Security and Medicare costs money over the next several decades. (Even those who believe most fervently in privatization of Social Security acknowledge significant transition costs — and many impartial observers would argue that those schemes would never really save money, even in the distant out-years. And Medicare costs are rising rapidly, while even the most optimistic views of private sector involvement should acknowledge that it will take years for competition to yield significant efficiencies.) These dollars to fix the two key programs must come from *outside of* the current Social Security and Medicare Trust Fund surpluses, because those reserves are already needed to meet just the current level of benefits over the next few decades. Because the nation therefore must save *at least* the annual Social Security and Medicare Trust Fund surpluses, the Congress — Republicans as well as Democrats — has vowed repeatedly never to touch those surpluses, and at least to balance the budget not counting them.

In light of the Republicans' avowed commitment to protect Social Security and Medicare, the current state of the budget is most troubling. The budget excluding Social Security and Medicare Trust Fund surpluses is already in substantial deficit; and the Republican program would set the budget on a path to enormous non-trust fund deficits for the indefinite future.

The President's budget, using his own economic forecast (which assumes the alleged supply-side benefits of his tax cuts), would yield substantial non-Social Security, non-Medicare deficits for his entire five-year forecast horizon. There is no improvement over that time, and no plan in the budget to turn things around. Of course, the current convention is to project budget results over ten years, and only the Congressional Budget Office (CBO) has analyzed the budget to the full usual horizon. The attached chart shows that CBO's results confirm as well as extend the numbers in the President's budget: without the crutch of counting the Social Security and Medicare Trust Fund surpluses, the budget remains in apparently perpetual sizable deficit.

The Republican Congress enacted its own ten-year plan in this year's budget resolution. Taking their numbers at face value, the resolution has non-trust fund deficits averaging over \$400 billion for the entire budget window. In contrast to the President's budget, the deficits in the resolution appear to be shrinking. However, further analysis reveals that this appearance of improvement arises solely because much of the Republican agenda is omitted from the resolution. The House Budget Committee Democratic staff has produced its own estimate, including the worsening of the budget to date and the tax cuts that are proposed in the President's budget but omitted from the resolution (including most significantly making dividends entirely tax-free, plus a remedy for the expansion of the individual alternative minimum tax, or AMT, which was promised in last year's budget from the President). That presentation shows enormous non-trust fund deficits which grow to over \$800 billion by 2013 — making a mockery of past pledges to protect Social Security and Medicare.

These massive non-trust fund deficits, and the accompanying record unified deficits, threaten the future of Social Security and Medicare. Taken in the most optimistic light, they give the federal government a heavy public debt load (the projected debt held by the public rises to 44 percent of the GDP, ten percentage points higher than today, by 2013), which leaves little or no policy flexibility, or margin for error, as the retirement of the baby boom approaches. And for even the most optimistic advocates of privatization, there are no funds available to finance private accounts to replace Social Security, or premium-support grants to replace conventional Medicare coverage (or funds for less-radical changes in those programs).

These results confirm yet again that Republican economic policy since 2001 has been short-sighted and irresponsible. It has contradicted every fervent pledge to protect the future of Social Security and Medicare, and leaves the nation powerless to prepare for what may be among the greatest fiscal challenges in our history.

Sincerely,

/s

John M. Spratt, Jr.

Ranking Democratic Member

Republican Policies Yield Enormous Non-Trust Fund Deficits

